7th November 2020

Dear Partner

The Avenir Global Fund (the "Fund") increased 8.7% for the September 2020 quarter bringing the past 1-year return to –3.9% (net)[1]. The MSCI ACWI index (AUD) returned 3.9% for the quarter and the same for past year.

This year's twists and turns continued in the third quarter. The year started with equity markets in an optimistic mood on the back of a roaring 2019 which saw the S&P 500 increase by 31.5%[2]. Interest rates seemed destined to stay low for a long time, company earnings were robust and investors seemed full of cheer. This continued into early 2020 with the S&P 500 reaching an all-time high in February. Then, the world was hit by the coronavirus which stalked a generally complacent market before unleashing its full fury in March, with the S&P 500 entering its fastest ever bear market, declining 35% from the highs[3].

The coronavirus induced market panic provided another lesson to investors that selling into a fully-fledged market panic, such as we saw in March, is never a good idea, and those who sought the comfort of cash locked in enormous losses as the market rebounded, equally violently, to reach new all-time highs in early September before suffering another, roughly, 10% correction to end the quarter 6.4% off the highs.

The strong market recovery was driven, in large part, by global central banks providing liquidity support to calm credit markets, and enormous fiscal stimulus which supported consumer spending and helped to reduce the impact of dramatic numbers of newly unemployed. During the third quarter, the economy also began to recover from the pandemic induced recession with U.S. real GDP increasing 33.1% following the 31.4% decline in the June quarter.[4]

The strong market performance is in spite of a recent resurgence of infection rates, particularly in Europe and the U.S. Fatality rates remain relatively subdued, however, and it seems health systems have learned how to treat the virus more effectively. The market is also hopeful that a vaccine is around the corner, even though, in a best-case scenario, it will not be until mid-next year that any vaccine will be able to be distributed widely.

Many have questioned the seeming disconnect between the market, which is near all-time highs, and the underlying economy that is being visibly affected by the pandemic. The market, however, is a forward-looking machine that reflects expected cash flows far into the future while the economic picture is more like a snapshot in time, so, the apparent disconnect is not entirely without reason.

In addition, this is not a typical recession, caused by some excess in the economy, such as over investment in a particular area, leading to an imbalance which needs to be wrung out over time. In this case, the recession has been caused by an external shock, the covid-19 pandemic, so it may be reasonable to expect that recovery

---

[1] Performance figures refer to the Avenir Global Fund – Class A launched on 25 August 2017. Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. For full performance figures please see our website at www.avenircapital.com.au. Past performance is not a reliable indicator of future performance. Source: Fidante Partners

[2] www.spglobal.com

[3] www.ft.com/fastest/S&P500suffersitsquickestfallintobearmarketonrecord

[4] https://www.bea.gov/news/2020/gross-domestic-product-third-quarter-2020-advance-estimate.

Level 2, 5 Martin Place, Sydney NSW 2000 Australia
t +61 2 9994 7891 **w** avenircapital.com.au
Avenir Capital Pty Ltd ABN 40 150 790 355 AFSL 405469

could be faster than in a typical recession should the health issues be able to be resolved or managed more effectively as time goes by. The development of an effective vaccine, for example, could see economic recovery take hold very quickly. Even evidence that medical systems around the world are better able to manage the effects of the virus would have significant positive flow through to people's behaviour and economic activity.

A recovering economy and very supportive fiscal and monetary policy seem conducive to asset price increases. Although unemployment is currently much higher than in recent years, a declining unemployment level off this high base can be good for equity values as earnings increases are supported by a growing economy and subdued wage pressure. Many companies have also undertaken substantial cost and efficiency measures than can drive earnings higher as demand recovers to pre-covid levels and assets are utilised more efficiently.

An ongoing concern for the market has been the U.S. election which, only now, seems to be, finally, resolved. We are now headed towards a Joe Biden presidency with the Republicans maintaining control of the senate and the Democrats control of the House. This political deadlock will likely stifle any substantial policy change and the market seems very happy with this outcome with the S&P 500 up over 7% since election day.

While Republican administrations are generally viewed as more business friendly, the data shows that U.S. stock market returns have, actually, been slightly better under democratic presidents, although, there is little difference between the two. Stock markets have done best when there is 'shared' power which leads to political gridlock and little substantive policy action in any direction.

Perhaps the more important dynamic, other than the path of the health crises, is that the Federal Reserve, and other central banks around the world, have increasingly flagged that interest rate are to be lower for longer which is supportive of asset prices and equity earnings multiples. As an example of the expansive central bank mindset, the U.S. Federal Reserve has essentially stated that monetary policy will be very accommodative, in other words, very low interest rates, until inflation exceeds 2% and there is full employment. In such a low interest rate world, asset prices may well increase further.

Portfolio Positioning

Given this environment, we have been tilting our portfolio towards undervalued franchises. This involves greater emphasis on companies with sustainable competitive advantages, sizeable and growing end markets and stable or growing returns on capital. A disciplined approach to valuation is still core to what we do and all investments remain anchored by a firm view of underlying value and the belief that we are benefiting from a healthy margin of safety by paying much less than our view of underlying value.

We also retain a healthy exposure to companies that are more economically sensitive and that will receive outsized benefits as economic conditions gradually normalise. The ratio of value to growth valuations is at or near all-time lows and we think value-oriented stocks can do well from this position. This 'barbell' portfolio structure offers what we consider to be a sensible and balanced exposure to investments in companies that we see as long-term compounders, along with companies that represent real value and that will benefit as economic conditions normalise.

There are parts of the market that we believe represent increasing risk based on valuations that require heroic operational performance over a long period of time by the companies in question. We are resisting the siren call of these very high multiple investment opportunities. We are also avoiding what have historically been referred to as quality, dividend payers as these 'bond proxies' have benefitted from the prolonged period of declining interest rates but we believe that story has largely played out and they will suffer should interest rates ever start to increase.

Portfolio Contributors

Our largest contributor for the quarter was **Wuliangye Yibin**, our Chinese baijiu maker, whose share price increased by 29.0%, adding 1.7ppts of contribution to our performance. During the quarter, Wuliangye announced solid 2nd quarter results with sales and earnings per share (EPS) both up about 10% for the quarter, largely in line with our expectations. Most of the growth came from an 11% increase in average selling price over the first half of the year, demonstrating Wuliangye's good control over the distribution channel with rapid quota adjustments and channel micro-management throughout the pandemic. This is an area that Wuliangye has devoted a lot of attention to over the past few years including packaging changes designed to better track product from the manufacturing plant and through the distribution and retail channels. Wuliangye is up approximately 71% since the beginning of the year.

Charter was also a strong performer with the share price up over 22% over the quarter. Charter had a very strong second quarter with broadband customers up by 850,000 and video subscribers up by 102,000 (Charter hasn't seen an increase in video subscribers since 2016). Adjusted EBITDA was up 7.3% and the company continued its program of share repurchases. Charter has performed well during the pandemic with the share price up 24% since the beginning of the year.

Our third best contributor was **ECN Capital** which increased 32.2% for the quarter and added 1.4ppts of contribution. ECN Capital announced strong second quarter results during the quarter and gave a bullish outlook for the future. The company re-instated guidance for 2020 and reiterated 2021 EPS guidance of US$0.44-US$0.53 per share, representing 50% growth over 2020. The company is gaining market share and support from channel partners and appears well set to drive strong growth for the medium term.

The only material detractor for the quarter was **Cigna**, a U.S. healthcare stock, which declined 9.7% as the U.S. moved closer to the election and Joe Biden's chances of winning the presidency increased, along with the possibility of the Democrats gaining control of the senate. Investors sold U.S. healthcare stocks due to increased fears of unfavourable policy change and following a well-established pattern of healthcare stocks underperforming leading up to an election and then materially outperforming after the election. While we generally don't comment on current quarter events in these letters, given the timing and significance of the U.S. election, it is, perhaps, worth pointing out that Cigna's share price jumped 15% the day after the election. We think the probability of dramatically unfavourable policy outcomes is low and prefer to hold this proven compounder through the volatility.

AVENIR
CAPITAL

As a Future Generation Global fund manager, Avenir was proud to take part in the Future Generation Virtual Investment Forum, sharing **Sony Corporation** as our stock pick. As a pro bono fund manager for Future Generation, we do not charge management or performance fees, allowing them to invest 1% of assets to its supported charities each year. You can find a short note on Sony here.

Our private equity heritage encourages us to view every investment we make as if we are buying the whole company. This helps to keep our focus on the quality of the underlying business, its long-term prospects and the price we are being asked to pay, rather than trying to speculate as to what the market or individual company prices may do over the short-term.

We believe that our fundamental research-driven and concentrated investment approach will continue to generate attractive investment outcomes for our investors, and the team at Avenir remain enthusiastic and focused in our search for the next great investment.

"What we feel is a choice."

- Piyush Shrivastav

Best Regards,

Adrian Warner
Managing Director

This material has been prepared by Avenir Capital Pty Ltd (ABN 40 150 790 355, AFSL 405 469) (Avenir), the investment manager of the Avenir Global Fund (ARSN 620 788 614) (the Fund).

Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante), is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion.

It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The PDS for the Fund, issued by Fidante, should be considered before deciding whether to acquire or hold units in the Fund. The PDS can be obtained by calling 13 51 53 or visiting www.fidante.com. Neither Fidante nor any of its respective related bodies corporate guarantees the performance of the Fund, any particular rate of return or return of capital. Past performance is not a reliable indicator of future performance.

Any projections are based on assumptions which we believe are reasonable, but are subject to change and should not be relied upon.

Avenir and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Avenir and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties.